S
352.736
L72mff
2003

Legislative Audit Division

State of Montana

Report to the Legislature

January 2003

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2002

Montana Facility Finance Authority

A Component Unit of the State of Montana

We performed a financial-compliance audit of the Montana Facility Finance Authority for the two fiscal years ended June 30, 2002. This report contains the audited financial statements and accompanying notes for each of the two fiscal years ended June 30, 2002 and 2001. We issued an unqualified opinion on the Authority's financial statements. The opinion means the reader may rely on the financial statement information presented.

This report contains no recommendations.

ATE DOCUMENTS COLLECTION

MAR 17 2003

MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

02-26

Help eliminate fraud, waste, and abuse in state government. Call the Fraud Hotline at 1-800-222-4446 statewide or 444-4446 in Helena.

MONTANA STATE LIBRARY

MONTANA STATE LIBRARY
3 0864 1001 8330 3

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE
As of December 2002

Senator John Cobb	Representative Joe Balyeat
Senator Jim Elliott	Representative Dee Brown
Senator Dan Harrington	Representative Bill Eggers
Senator Ken Miller	Representative Hal Jacobson
Senator Corey Stapleton	Representative Jeff Pattison, Vice Chair
Senator Jon Tester, Chair	Representative David Wanzenried

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

January 2003

The Legislative Audit Committee
Of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Facility Finance Authority (authority) for the two fiscal years ended June 30, 2002. The objectives of the audit were to determine the authority's compliance with applicable laws and regulations, make necessary recommendations for improvements in management and internal controls, and determine if the authority's financial statements present fairly its financial position, results of operations, and cash flows for the two fiscal years ended June 30, 2002.

This audit report contains our Independent Auditor's Report on the financial statements of the Montana Facility Finance Authority of the Department of Commerce, as shown on page A-1. Management's discussion and analysis, and the audited financial statements follow the Independent Auditor's Report. The report contains no recommendations. The previous audit report also contained no recommendations.

The authority is administratively attached to the Department of Commerce. Financial accounting for the authority's operation is performed by the department's Management Services Division. The authority offers debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions or pre-release centers for purchases of capital equipment and buildings.

The authority administers six programs:

- Pooled Loan Program - provides low, variable interest rate loans for eligible institutions to finance or refinance land, buildings, equipment, and related capital costs.
- Master Loan Program - loan proceeds may be used to finance new construction projects, refinance outstanding bonds, acquire real property, purchase equipment, or reimburse borrowers for prior capital expenditures.
- Stand Alone Program - issues tax-exempt bonds or notes for individual projects.
- Private Placement Program - bonds or notes are sold directly to a limited number of investors and are issued on behalf of the borrower.
- Direct Loan Program - provides short-term loans of $100,000 or less to eligible facilities for facility construction, renovation, acquisition, equipment purchases, and the refinancing of outstanding debt.

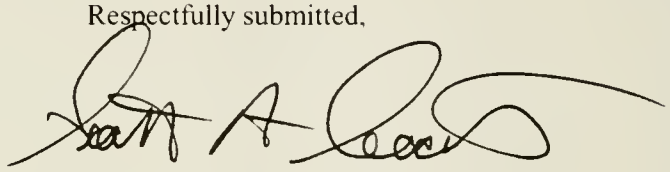
Room 160, State Capitol Building PO Box 201705 Helena, MT 59620-1705
Phone (406) 444-3122 FAX (406) 444-9784 E-Mail lad@state.mt.us

- Permanent Coal Trust Fund - provides loans to eligible facilities for capital projects. The Legislature authorized the authority to administer $15 million of the Permanent Coal Tax Trust Funds for this program.

Additional detail on amounts, maturity dates, and descriptions of the revenue bonds and notes and notes receivable is disclosed in notes 2 and 3 of the financial statements beginning on page A-10. The authority also prepares a biennial report that describes its operations in more detail.

Authority officials reviewed and agreed with the contents of this report and chose not to respond in writing. We would like to thank the executive director and Department of Commerce personnel for their cooperation and assistance during the audit.

Respectfully submitted,



Scott A. Seacat
Legislative Auditor

Appointed and Administrative Officials

Board Members

	Profession	Term Expires
Gregory L. Hanson, Chair Missoula	Attorney	2003
Joyce Asay Forsyth	Health Facility Consultant	2005
Gayle Carpenter Helena	State Association Mgmt.	2005
John Bartos Hamilton	Hospital Administrator	2003
Lee Jockers Billings	Banker (retired)	2005
Kelly Evans Red Lodge	Hospital Administrator	2005
Ken Jansan Glasgow	Banker	2003

Administrative Staff

Michelle Barstad, Executive Director

Larry Thomas, Associate Director

Teri Juneau, Accountant

For additional information concerning the Montana Facility Finance Authority contact Michelle Barstad at:

Montana Facility Finance Authority
Department of Commerce
2401 Colonial Drive, Third Floor
PO Box 200506
Helena MT 59620-0506
(406) 444-0259

e-mail: mbarstad@state.mt.us

Members of the audit staff involved in this audit were Jeane Carstensen-Garrett, Paul J. O'Loughlin, and Sonia Powell.

Digitized by the Internet Archive
in 2010 with funding from
Montana State Library

http://www.archive.org/details/montanafacilityf2003mont

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Assets - Enterprise Fund of the Montana Facility Finance Authority (authority), a component unit of the State of Montana, as of June 30, 2002 and 2001, and the related Statement of Revenues, Expenses, and Changes in Fund Net Assets, and Statement of Cash Flows for the fiscal years then ended. The information contained in these financial statements is the responsibility of the authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Facility Finance Authority as of June 30, 2002 and 2001, and the results of operations and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 9, 2002

Room 160, State Capitol Building PO Box 201705 Helena, MT 59620-1705
Phone (406) 444-3122 FAX (406) 444-9784 E-Mail lad@state.mt.us

Montana Facility Finance Authority

Management's Discussion and Analysis

Years ended June 30, 2002 and 2001

The following represents Montana Facility Finance Authority (the "Authority") management's discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2002 and 2001. Please read it in conjunction with the Authority's financial statements and accompanying notes.

Financial Highlights

- The Authority closed bonds/note issues:
  4 ($24,004,482) in FY 2002 and 4 ($27,318,054) in FY2001
- The Authority made loans from a revolving bond issue:
  4 loans ($5,437,901) in FY2001 and 2 loans ($4,900,000) in FY2002
- The Authority made loans out of reserves designated for such purpose:
  9 loans ($388,402) in FY2002 and 2 loans ($32,175) in FY2001
- The Authority made loans from the Montana Permanent Coal Tax Trust Fund:
  2 loans ($679,302) in FY2002 and 1 loan ($533,600) in FY2001
- The Authority's total outstanding bonds/notes/loans increased from $585,057,254 in FY2000 to $598,822,791 in FY2002
- The Authority created a grant program of $35,000 annually and committed $35,000 in FY2002 and $8,465 in FY2001

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Montana Facility Finance Authority's basic financial statements comprise two components, basic financial statements, and notes to the financial statements. The Authority is a self-supporting entity and follows enterprise fund reporting. Accordingly, the financial statements are presented using the accrual basis of accounting.

Overall financial condition of the Authority improved from FY2000 to FY2001 and again in FY2002 based on an increase in Net Assets, although at a decreased rate due to reductions in borrower's fees and interest earnings. Fees of the Authority have been reduced over time and excess revenues are designated for a loan program, a loan loss reserve, and working capital reserve.

Basic Financial Statements

The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in

net assets may serve as a useful indicator of whether the financial position of the Montana Facility Finance Authority is improving or deteriorating.

The statement of activities presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The basic financial statements can be found beginning on page A-5 of this report.

Notes to the financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found beginning on page A-9 of this report.

Financial Analysis of the Authority

Condensed financial statements are presented below.

	2002	2001	Increase/ Decrease	Increase/ Decrease
Total assets	2,254,780	2,168,075	86,705	4.0%
Total liabilities	20,414	29,249	(8,835)	-30.2%
Invested in Capital Assets	887	1,307	(420)	-32.1%
Total unrestricted net assets	2,233,478	2,137,519	95,959	4.5%
Total operating revenues	326,395	417,597	(91,202)	-21.8%
Operating expenses:				
Personal services	122,676	109,931	12,745	11.6%
Contracted services	30,158	33,793	(3,635)	-10.8%
Other operating expenses	71,221	75,241	(4,020)	-5.3%
Grants	6,600	0	6,600	100.0%
Total operating expenses	230,655	218,965	11,690	5.3%
Operating income	95,740	198,632	(102,892)	-52%
Total nonoperating revenues (expenses)	(200)	0	(200)	-100.0%
Change in net assets	95,540	198,632	(103,092)	-51.9%

Administrative initial fees are charged to borrowers at the completion of a financing. Annual fees are charged on the anniversary date of the bond issue and billed in arrears.

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET ASSETS - ENTERPRISE FUND
JUNE 30 2002 AND 2001

ASSETS	*2002*	*2001*
Current Assets:		
Cash & Cash Equivalents (Note 1)	$ 1,808,215	$ 1,766,375
Accounts Receivable	15,977	25,551
Short Term Notes Receivable (Note 3)	175,280	120,953
Due From Primary Government	1,500	0
Prepaid Expenses	532	325
Total current assets:	2,001,504	1,913,204
Noncurrent Assets:		
Long Term Notes Receivable (Note 3)	252,389	253,564
Capital Assets (Note 1)	887	1,307
Total noncurrent assets	253,276	254,871
Total Assets	$ 2,254,780	$ 2,168,075
LIABILITIES		
Current liabilities:		
Deferred Revenue	$ 100	$ 0
Accounts Payable	9,328	2,250
Due to Primary Government	3,173	6,454
Compensated Absences	3,876	10,192
Total current liabilities:	16,477	18,896
Noncurrent liabilities:		
Compensated Absences	3,937	10,353
Total noncurrent liabilities:	3,937	10,353
Total liabilities	$ 20,414	$ 29,249
NET ASSETS		
Invested in Capital Assets Net of Related Debt	$ 887	$ 1,307
Total Unrestricted Net Assets	$ 2,233,479	$ 2,137,519
Total net assets (Note 6)	$ 2,234,366	$ 2,138,826
Total net assets and liabilities	$ 2,254,780	$ 2,168,075

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30 2002 AND 2001

	2002	*2001*
OPERATING REVENUES		
Service Fees	$ 256,490	$ 266,493
Securities Lending Income	824	13,099
Investment Earnings	69,081	138,005
Total operating revenues	$ 326,395	$ 417,597
OPERATING EXPENSES		
Personal Services	$ 122,676	$ 109,931
Contracted Services	30,158	33,793
Supplies and Materials	5,246	3,167
Communications	7,165	3,855
Travel	10,199	18,077
Rent	16,005	17,989
Repairs and Maintenance	1,143	215
Other Expenses	30,505	18,496
Securities Lending Expense	738	12,947
Equipment	0	0
Depreciation - Equipment	220	495
Grants	6,600	0
Total operating expenses	$ 230,655	$ 218,965
Operating income	$ 95,740	$ 198,632
NON OPERATING REVENUES (EXPENSES)		
Gain (Loss) on Sale of Non-Gen Capital Assets	$ (200)	$ 0
Total nonoperating revenues	(200)	0
Change in net assets	$ $95,540	$ $198,632
Net Assets Beginning of Period	$ 2,138,826	$ 1,940,194
Total Net Assets End of Period	$ 2,234,366	$ 2,138,826

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30 2002 AND 2001

		2002		*2001*
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Customers	$	266,930	$	259,867
Cash Payments to Suppliers for Goods and Services		(104,949)		(95,238)
Cash Payments to Employees for Services		(135,593)		(112,645)
Other Operating Revenue		0		0
Cash Payments for Loans		0		0
Net Cash Provided by (Used for) Operating Activities	$	26,388	$	51,984
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Cash Payments for Loans	$	0	$	0
Net Cash Provided by (Used for) Noncapital Financing Activities	$	0	$	0
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:				
Acquisition of Capital Assets	$	0	$	0
Proceeds from Sale of Capital Assets		0		0
Net Cash Used for Capital & Related Financing Activities:	$	0	$	0
CASH FLOWS FROM INVESTING ACTIVITIES:				
Sale of Investments	$	0	$	914,868
Purchase of Investments		(227,978)		0
Proceeds from Securities Lending Income		824		17,994
Cash Payments for Loans				0
Collection for Principal & Interest on Loans		174,826		(126,473)
Security Lending Expense		(738)		(17,753)
Interest on Investments		68,518		146,633
Net Cash Provided by (Used for) Investing Activities:	$	15,452	$	935,269
Net Increase (Decrease) in Cash and Cash Equivalents	$	41,840	$	987,253
Cash & Cash Equivalents, July 1	$	1,766,375	$	779,122
Cash & Cash Equivalents, June 30	$	1,808,215	$	1,766,375

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS (CONTINUED)
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30 2002 AND 2001

	2002	*2001*
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	$ 95,740	$ 198,632
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation	220	495
Interest on Investments	(69,081)	(138,004)
Securities Lending Expense	738	12,947
Securities Lending Income	(824)	(13,099)
Change in Assets & Liabilities:		
Increase (Decrease) in Accounts Payable	3,698	590
Increase (Decrease) in Deferred Revenue	100	0
Increase (Decrease) in Compensated Absences Payable	(16,608)	(3,115)
Increase (Decrease) in Compensated Absences Payable-Current	3,876	0
Decrease (Increase) in Accounts Receivable	10,238	(6,626)
Decrease (Increase) in Prepaid Expense	(208)	164
Decrease (Increase) in Due From Primary Governments	(1,501)	0
Total Reconciling Adjustments	$ (69,352)	$ (146,648)
Net Cash Provided by (Used for) Operating Activities	$ 26,388	$ 51,984

The accompanying notes to the financial statements are an integral part of this statement.

1. Summary of Significant Accounting Policies

Basis of Accounting

The Authority's Enterprise Fund uses the accrual basis of accounting in accordance with Generally Accepted Accounting Principles. Under this basis, revenues are recognized in the period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable.

Reporting Entity

The preceding financial statements are prepared from the Statewide Accounting Budgeting Human Resource System (SABHRS) and include the financial activity of the Authority's account in the Enterprise Fund. These statements are summaries of entries in the accounting records for the Authority and exclude any entries recorded for other agencies. Accordingly, these financial statements are not intended to fairly present the financial position, results of operations, or cash flow of the State of Montana. The Authority is a component unit of the State of Montana.

Nature of Fund

The fund maintained by the Authority, which conforms with authorizing legislation and Authority resolutions, is described as follows:

> The Enterprise Fund is used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is that costs are to be financed or recovered primarily through user charges.

Cash and Cash Equivalents

Cash and Cash Equivalents as presented on the accompanying Balance Sheet and Statement of Cash Flows represents the Authority's cash of $8,610 and $16,164 as of June 30, 2002 and 2001 respectively, and cash equivalents invested in the Board of Investments Short-Term Investment Pool (STIP) of $1,799,605 and $1,750,211 for fiscal year 2002 and 2001, respectively. The Enterprise Fund invests its residual funds, by law, in STIP. STIP is considered an external investment pool. An external investment pool is defined as an arrangement that pools the monies of more than one legally separate entity and invests, on the participants behalf, in an investment portfolio. STIP is also classified as a 2a7-like pool. A 2a7-like pool is an external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that will, and does, operate in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940. If certain conditions are met, 2a7-like pools are allowed to use amortized cost rather than fair value to report net assets to compute unit values. The Board of Investments has adopted a policy to treat STIP as a 2a7-like pool. Cash and cash equivalents are defined as a short-term, highly liquid investment that is readily convertible to know amounts of cash.

Capital Assets

Capital assets are carried at cost less accumulated depreciation. Depreciation is provided for by using the straight-line method over the respective estimated useful lives of the assets.

Compensated Absences

Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual accumulation of vacation leave. Upon termination, qualifying employees having unused accumulated vacation

and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave. The accompanying financial statements reflect that liability.

2. Revenue Bonds and Notes Payable

Resolutions adopted by the Authority have provided for trust and other agreements that establish specific funds to account for the proceeds of the various bond and note issues, mortgage and revenue notes receivable, debt service payments, payments by Borrowers, construction costs, and issuance costs. Specific funds established by agreements are held by trustees, or other participating financial institutions for the purpose of security and liquidity. Revenues are collected and disbursements made only in accordance with the provisions of applicable bond and note documents.

Most loans financed with bond proceeds are secured by first mortgages or security interests in the land, buildings, and related facilities and equipment financed by the Authority and utilized by the Borrower. Other loan payments are secured by a Master Note issued under a Master Trust Indenture of an Obligated Group or by standby letters of credit from financial institutions rated "A" or better. These liabilities do not constitute a debt or liability to the state of Montana or any political subdivision thereof.

Revenue Bonds Payable:

Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2002	Outstanding June 30, 2001
Health Care Variable Rate Revenue Bonds (Pooled Loan Program) Series 1985A	1985-2020	Variable	35,900,000	35,900,000
Health Care Revenue Bonds (Community Provider Pooled Loan Program) Series 1988	1988-2003	Fixed	0	307,000
Health Care Revenue Bonds (Community Provider Pooled Loan Program) Series 1990	1990-2010	Fixed	2,641,000	3,368,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 A&B	1991-2016	Variable	33,200,000	34,600,000
Hospital Facilities Revenue Bonds (Sisters of Providence -St. Patrick Hospital in Missoula, Columbus Hospital in Great Falls, and St. Joseph Hospital in Polson) Series 1991	1991-2012	Fixed	2,965,000	4,310,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 C	1991-2017	Variable	24,600,000	25,450,000
Health Care Revenue Bonds (Community Provider Pooled Loan Program) Series 1991 A&B	1991-2011	Fixed	2,397,000	2,744,000
Hospital Facilities Revenue Bonds (Hospital Pooled Loan Program) Series 1992	1992-2007	Fixed	1,290,000	1,465,000
Health Care Revenue Bonds (Richland Opportunities, Inc. Project) Series 1993	1993-2013	Fixed	138,824	147,386
Hospital Facilities Revenue Refunding Bonds (Bozeman Deaconess Foundation Project) Series 1993	1993-2008	Fixed	7,345,000	8,355,000
Revenue Bonds (Sisters of Charity of Leavenworth Health Services Corporation) Series 1994	1994-2023	Fixed	35,395,000	37,590,000
Hospital Revenue Bonds (Deaconess-Billings Clinic Health System Project) Series 1994	1994-2025	Variable	58,870,000	58,870,000
Health Care Revenue Bonds (Montana Developmental Center Project) Series 1994*	1994-2019	Fixed	11,055,000	11,425,000
Health Care Facilities Revenue Bonds (Master Loan Program-Lutheran Retirement Home, Inc. Project) Series 1994B	1994-2014	Fixed	1,710,000	1,805,000
Health Care Facilities Revenue Bonds (Master Loan Program-North Valley Hospital Project) Series 1994D (Taxable)	1994-2004	Fixed	500,000	645,000
Health Care Facilities Revenue Bonds (Master Loan Program-Northern Montana Obligated Group Project) Series 1995A	1995-2015	Fixed	4,135,000	4,335,000

Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2002	Outstanding June 30, 2001
Health Care Facilities Revenue Bonds (Northern Montana Care Center Project) Series 1995B	1995-2015	Fixed	5,060,000	5,285,000
Health Care Facilities Revenue Bonds (Master Loan Program-Toole County Project) Series 1996A	1996-2011	Fixed	1,210,000	1,300,000
Health Care Facilities Revenue Bonds (Master Loan Program Marcus Daly Memorial Hospital Project) Series 1996B	1996-2011	Fixed	1,380,000	1,485,000
Health Care Facilities Revenue Bonds (Master Loan Program Glendive Medical Center Project) Series 1996C	1996-2011	Fixed	1,180,000	1,270,000
Revenue Bonds (Mission Ridge Project) Series 1996 A,B,C	1996-2026	Fixed	17,835,000	17,835,000
Health Care Revenue Bonds (Community Medical Center, Inc.) Series 1996	1996-2018	Fixed	18,600,000	19,230,000
Hospital Facilities Revenue Bonds (Sisters of Providence of MT Obligated Group-Benefis Health Care) Series 1996	1996-2011	Fixed	7,940,000	9,850,000
Hospital Facilities Revenue Bonds (St. Peter's Community Hospital Project) Series 1997	1997-2011	Fixed	13,835,000	15,015,000
Development Disability Facility Revenue Bonds (Beartooth Industries Project) Series 1997	1997-2024	Fixed	234,113	240,042
Prerelease Center Revenue Bonds (Alternatives, Inc. Project) Series 1997	1997-2017	Fixed	2,540,000	2,645,000
Health Care Revenue Bonds (Montana State Hospital) Project) Series 1997*	1997-2022	Fixed	23,870,000	24,580,000
Health Care Facilities Revenue Bonds (Master Loan Program-Big Horn Hospital Association Project) Series 1998A	1998-2018	Fixed	1,235,000	1,285,000
Health Care Facilities Revenue Bonds (Master Loan Program-Lewis & Clark County Nursing Home Project) Series 1998B	1998-2018	Fixed	1,495,000	1,555,000
Health Care Facilities Revenue Bonds (Master Loan Program-North Valley Hospital Project) Series 1998C	1998-2008	Fixed	1,290,000	1,445,000
Health Care Facilities Revenue Bonds (Master Loan Program-Lewis & Clark County Office Project) Series 1998D	1998-2018	Fixed	740,000	770,000
Revenue Bonds (Sisters of Charity of Leavenworth Health Services Corp.-St. Vincent in Billings, St. James in Butte) Series 1998	1998-2024	Fixed	133,405,000	135,010,000
Developmental Disability Facilities Revenue Bonds (Opportunity Resources, Inc. Project) Series 1998	1998-2018	Fixed	350,827	364,150
Hospital Facilities Revenue Bonds (Kalispell Regional Hospital Project) Series 1998	1998-2018	Fixed	16,455,000	17,555,000
Hospital Facilities Revenue Bonds (Bozeman Deaconess Health Services Project) Series 1998	1998-2018	Fixed	11,690,000	12,170,000
Prerelease Center Revenue Bonds (Missoula Correctional Services Project) Series 1998A	1998-2018	Fixed	5,205,000	5,415,000
Prerelease Center Revenue Bonds (Great Falls Prerelease Services, Inc. Project) Series 1998B	1998-2013	Fixed	1,095,000	1,165,000
Revenue Bonds (Providence Services) Series 1999	1999-2026	Fixed	25,025,000	25,025,000
Health Care Facilities Revenue Refunding & Improvement Bonds (Sidney Health Center) Series 1999	1999-2029	Fixed	10,955,000	11,255,000
Health Care Facilities Revenue Bonds (Master Loan Program-Marcus Daly Memorial Hospital Corporation Project) Series 2000	2000-2020	Fixed	3,255,000	3,350,000
Revenue Bonds (Hillcrest Senior Living Project) Series 2000	2000-2030	Fixed	17,170,000	17,170,000
Prerelease Center Revenue Bonds (Boyd Andrew Prerelease) Series 2000	2000-2020	Fixed	2,180,000	2,245,000
Hospital Facilities Revenue Bonds (Kalispell Regional Medical Center) Series 2001	2001-2016	Fixed	20,550,000	20,550,000

Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2002	Outstanding June 30, 2001
Health Care Facilities Revenue Bonds (Master Loan Program-Community Medical Center Project) – Series 2001 A&B	2001-2021	Fixed	5,460,000	0
Variable Rate Demand Revenue Bonds (Mission Ridge Project) – Series 2002	2002-2027	Variable	14,150,000	0
Total Revenue Bonds Payable			**587,531,764**	**586,380,578**

* The Montana Developmental Center and the Montana State Hospital are state revenue bond issues and are reflected in the State of Montana Comprehensive Annual Financial Report.

Stated maturities on Revenue Bonds Payable are as follows:

Maturing In Year Ended June 30, 2002 Bond Principal Payments (in thousands).

2003	17,656
2004	19,518
2005	19,143
2006	20,570
2007-2030	510,644
Total	**587,531**

The bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements and, further, from the funds created by the indentures and investment earnings thereon.

Revenue Notes Payable:

Issue	Period Outstanding	Interest Rate	Outstanding June 30, 2002	Outstanding June 30, 2001
West Mont Home Health Services Inc., Series 1985 Hospital Revenue Note	1985-2004	2% under Bank Floating Rate	0	8,142
Community Medical Center- Private Placement Revenue Note	1999-2005	5.35%	932,254	1,446,212
St. Patrick Hospital- Private Placement Revenue Note	1999-2010	6.06%	1,556,139	1,598,936
Community Medical Center- Private Placement Revenue Note	2001-2007	5.48%	945,388	1,091,982
Community Medical Center- Private Placement Revenue Note	2001-2007	5.48%	96,670	117,500
St. Peter's Hospital-MHFA Placement Revenue Note	2001-2007	4.25%	2,508,567	0
St. Patrick Hospital-MHFA Placement Revenue Note	2002-2007	4.33%	4,884,341	0
Total Revenue Notes Payable			**10,923,359**	**4,262,772**

The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements.

3. Notes Receivable

The Notes Receivable include loans made under the Authority's Direct Loan Program. Since the loans are made from the Authority's Net Assets and not through the issuance of bonds or notes, a receivable is presented. The Short-Term Notes Receivable represents the portion of the loans that are due within the year following the balance sheet date.

Revenue Notes Receivable:
(MFFA Direct Loans)

Issue	Period Outstanding	Interest Rate	Outstanding June 30, 2002	Outstanding June 30, 2001
Residential Support Services	1994-2009	5.53%	23,075	28,464
Eastern MT Community Mental Health Center	1998-2000	5.85%	0	0
Missoula Correctional Services	1998-2000	4.09%	0	0
Butte Sheltered Workshop	1999-2004	5.87%	30,915	45,066
Powell County Hospital	2000-2005	6.48%	49,119	65,463
Mineral Community Health Care	2000-2005	6.48%	14,807	19,422
Dahl Memorial Healthcare	2001-2006	5.75%	10,464	13,021
Missouri River Medical Center	2001-2005	4.82%	13,558	18,129
A.W.A.R.E.	2001-2004	4.75%	5,119	0
Reach	2001-2004	4.75%	57,002	0
New Horizon	2001-2004	4.75%	0	0
Little Bitterroot	2001-2004	4.75%	10,515	0
Step	2001-2004	4.75%	5,534	0
Missouri River Medical Center	2001-2004	3.89%	6,395	0
Beartooth Hospital	2001-2006	3.92%	90,835	0
Marcus Daly Memorial Hospital	2002-2006	4.53%	97,018	0
Missouri River Med.	2002-2006	4.91%	13,313	0
Total Revenue Notes Receivable			**427,669**	**189,565**
Bond call – Principal				**165,000**
Bond Call – Interest				**19,952**
Total			**427,669**	**374,517**

The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements.

4. Securities Lending

Under the provisions of state statutes, the Montana Board of Investments has, via, a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Boards securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the market value of the loaned securities and maintain collateral equal to but not less than 100 percent of the market value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2002 and 2001, State Street lent, on behalf of the Board, certain securities held by State Street, as custodian, and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2002 and 2001 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2002 and 2001 resulting from a default of the borrowers or State Street.

During fiscal years 2002 and 2001, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Boards loans was effected by the maturities of the loans made by

other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. On June 30, 2002 and June 30, 2001, the Board had no credit risk exposure to borrowers.

5. Employee Benefit Plans

The Authority participates in the Public Employees' Retirement System (PERS), a cost sharing, multiple employer, defined benefit pension plan which covers all employees. The plan is established under State law and is administered by the State of Montana. The plan provides retirement, disability and death benefits to plan members and beneficiaries.

The plan issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from:

Public Employees Retirement Division
PO Box 200131
100 South Park, Suite 220
Helena, MT 59620-0131
406-444-3154

The Authority and its employees were each required to contribute 6.9 percent of annual compensation for both fiscal years 2002 and 2001.

The Authority's PERS contributions were $7,410 and $6,216 in fiscal years 2002 and 2001, respectively.

Deferred Compensation Plan

The Authority's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance was required by January 1, 1999.

6. Net Assets

Capital Reserve Accounts

Net Assets	Funded 2002	Requirement 2002	Funded 2001	Requirement 2001
Capital Reserve Account A	960,374	3,688,315	981,906	3,315,815
Capital Reserve Account B	6,495	163,651	4,795	101,126
Direct Loan Program	726,749	726,749	693,723	693,723
Working Capital Fund	540,748	540,748	458,402	458,402
Total	2,234,366	5,119,463	2,138,826	4,569,066

The Montana Legislature approved the creation of Capital Reserve Accounts in section 90-7-317, MCA, as security for the payment of loans in connection with certain bonds or loans issued by the Authority. The Capital Reserve Account A is security that applies to all bonds issued under the Master Loan Program, Community Provider Pooled Loan Programs,

Prerelease Revenue Bonds, as well as the Stand Alone Programs for the Montana Developmental Center and the Montana State Hospital. The Authority designates certain funds equal to 10% of the par amount of the outstanding bonds enhanced by the Montana Board of Investments to be deposited to Capital Reserve Account A. Therefore the Authority has designated a certain portion of the Total Net Assets for loan repayments to the Montana Board of Investments, upon demand, under the Capital Reserve Agreements for 18 outstanding series of bonds. As of June 30, 2002 and 2001, the total outstanding bonds enhanced by the Montana Board of Investments were $36,883,151 and $33,158,151, respectively. As of June 30, 2002 the total Capital Reserve Account A requirement was $3,688,315 and was funded at $960,374. As of June 30, 2001 the total Capital Reserve Account requirement was $3,315,815 and was funded at $981,906.

Effective July 1, 1999, the Montana Legislature authorized the Authority to administer $15,000,000 of the Permanent Coal Tax Trust Fund for capital projects in section 17-6-308, MCA. The Authority made two loans during fiscal year 2002 and one loan during fiscal year 2001 under this authority. The outstanding loan amounts (approximately $1,636,510) are reported as investments in the financial statements of the Montana Board of Investments. The Authority designates certain funds equal to 10% of the par amount of outstanding loans made from this fund as a loan repayment Capital Reserve Account. These funds are represented in the Total Net Assets as Capital Reserve Account B. As of June 30, 2002, the total Capital Reserve Account B requirement was $163,651 and was funded at $6,495. As of June 30, 2001, the total Capital Reserve Account B requirement was $101, 126 and was funded at $4,795.

Direct Loan Program

The Legislature authorized the Authority to create and fund a revolving Direct Loan Program that provides short-term loans to its non-investment grade clients to finance small capital projects. The Authority has designated a certain portion of the Total Net Assets for this revolving loan program. Deposits to the Direct Loan Program include applicable loan repayments, annual fees, and investment earnings. On June 30, 2002 and 2001, the funding requirement for the program was $726,749 and $693,723 respectively. As of June 30, 2002 and 2001, respectively, loans of $427,669 and $374,517 were outstanding; leaving $299,080 and $319,206 available for additional loans.

Working Capital Fund

The Legislature approved the fees of the Authority that include the Authority's designation of a working capital fund equal to twice the annual budget for the Authority. For fiscal years 2002 and 2001 the fund requirement equaled $540,748 and $458,402, respectively and were fully funded. These funds are part of the Total Net Assets balance.

7. Subsequent Event

On August 7, 2002, a bond issue of $75,380,000 was closed for Providence Services (St. Patrick Hospital and Health Sciences Center in Missoula and Benefis Health Care in Great Falls). Proceeds will be used to construct surgical suites at Benefis and refund outstanding bonds at both facilities.